

GASB 47 Implementation

Overview

New GASB Statements

- GASBS 47: Accounting for Termination Benefits
 - Effective for FYE June 30, 2006
- GASBS 43: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
 - Phased in based on GASBS 34 phase in:
 - Phase I – fiscal 2007
 - Phase II – fiscal 2008
 - Phase III – fiscal 2009

New GASB Statements

- GASBS 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions
 - Phased in based on GASBS 34 phase in:
 - Phase I – fiscal 2008
 - Phase II – fiscal 2009
 - Phases III – fiscal 2010
- **NOT New** – GASBS 27: Accounting and Reporting by Employers for Pension Benefits

Purpose Today

- Provide understanding of GASBS 47
- Provide basic understanding of GASBS 43 and 45
- Review factors to consider in determining the type of benefit plan
 - Termination Benefit
 - OPEB
 - Pension Benefit

Where Do We Find Information on Benefits Offered?

- Personnel policies:
 - Early retirement incentive
 - Sick leave payouts
 - Other compensation upon termination or retirement
- Employment contracts
- Specific policies (outside personnel policies) for:
 - Early retirement
 - Severance packages
- Minutes record

OPEB – GASBS 43 and 45

- Both cover Other Postemployment Benefits
 - Arise from an exchange of salaries and benefits for employee services
 - Part of the compensation that employers offer for services received
 - **Not** to hasten termination

OPEB – GASBS 43 and 45

- Forms of OPEB
 - Health insurance & healthcare benefits
 - Including Implicit Rate Subsidy
 - Dental insurance
 - Vision insurance
 - Life insurance
 - Long-term care
 - Legal services
 - Other

Termination Benefits - Definition

- Benefits provided by employers to employees as an inducement to hasten the termination of services

Termination Benefits – Two Types

- Voluntary
 - Offered as an incentive to hasten voluntary termination of services (early retirement incentive)
 - Cash payments
 - Health and life insurance – when not otherwise provided
 - Conversion of unused sick leave balances when such conversion would not otherwise be allowed

Termination Benefits – Two Types

- Involuntary
 - Offered to provide benefits to terminated employees as a result of involuntary terminations (RIF or layoffs)
 - Severance pay
 - Healthcare coverage – when not otherwise provided
 - Career counseling
 - Job placement assistance

GASBS 47: Implementation

- FYE June 30, 2006
- Exception to Implementation:
 - Termination benefits that affect a (pre-existing) defined benefit postemployment benefit should be implemented under GASBS 45 (**at the same time**)

Termination Benefit Exception

- GASBS 47 provides in part:
 - If a government offers termination benefits that affect the benefits already provided to former retirees through defined benefit retirement plans, (retiree healthcare), those effects would be accounted for and reported consistent with GASB #45.

Implicit Rate Subsidy OPEB

- Iowa Code Section 509A.13 states in part:
 - “If a governing body has procured for its employees accident, health , or hospitalization insurance, or a medical service plan, or has contracted with a health maintenance organization to do business in this state...”

Implicit Rate Subsidy OPEB

- Iowa Code Section 509A.13 states in part:
 - “... the governing body **shall** allow its employees who **retired** before attaining age 65 years of age to continue participation in the group plan or under the group contract at the employee’s own expense until the employee attains are 65 years of age.”
 - Retirement (4 years service & age 55)

Implicit Rate Subsidy OPEB

- Creates a pre-existing OPEB
- Implicit Rate Subsidy OPEB
- Will apply to most governments in Iowa
- Implement with GASBS 45

Implicit Rate Subsidy - Definition

- Difference between a premium rate charged for retirees for a particular benefit (blended premium) (i.e., healthcare) and the estimated rate that would be applicable to those retirees if that benefit was acquired for them as a separate group

Implicit Rate Subsidy

- Exists when:
 - An employer contributes all or part of the cost of healthcare benefits to active employees and provides coverage to retirees at a blended premium rate

Implicit Rate Subsidy

- Insurer might quote an employer monthly payments of:
 - \$80,000 to cover healthcare for 400 active employees
 - \$40,000 to cover healthcare for 100 retirees.
 - Age-adjusted premium for retirees (\$400 = $\$40,000/100$) is twice the age-adjusted premium for active employees ($\$200 = \$80,000/400$).

Implicit Rate Subsidy

- Some employers elect (or are required) to use a single “common” or “blended” premium for both active employees and retirees.
- Using the above example, the result would be a higher premium for active employees and a lower premium for retirees

	Active employees (400)	Retirees (100)
Monthly quote	\$80,000	\$40,000
Age-adjusted premium	$\$80,000/400 = \200	$\$40,000/100 = \400
Common ("blended") premium	$(\$80,000 + \$40,000)/(400 + 100) = \$240$	
Difference between age-adjusted premium and common ("blended") premium	\$40 more per active employee	\$160 less per retiree

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Factors to consider:
 - Written plan/policy – management's intent
 - Employee expectation
 - Time period offered
 - Whether assumptions are needed to calculate benefit
 - How plan is working, in substance

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Written Plan/Policy:
 - Identify management's intent
 - To encourage or hasten separation from service earlier than otherwise expected - **Termination Benefit**
 - Compensation for services rendered - **OPEB or Pension Benefit**

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Retirement Income
 - Pension benefit
 - Report under GASBS 27

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Employee Expectation
 - Entitlement – OPEB or Pension
 - When hired, expectation to receive – OPEB or Pension
 - If incentive to hasten retirement – Termination Benefit
 - Part of severance package – Termination Benefit

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Time Period Offered and Length of Time Benefits Available
 - Once only/limited time period - termination benefit
 - Management decides annually or benefit varies - termination benefit
 - Established policy – OPEB or Pension
 - Employment agreement or negotiated contract - OPEB or Pension

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- Assumptions Important to Calculate Expense/Liability
 - If need to use assumptions, most likely OPEB or pension
 - Termination benefits are less complicated and more short-term

Distinguishing OPEB vs. Pension Benefits vs Termination Benefits

- How Plan is Working In Substance
 - If compensation – OPEB or Pension
 - If incentive to hasten retirement – termination benefit
 - If part of severance package – termination benefit

Sick Leave Conversions

- Conversion of a terminating employee's unused sick leave to an individual account should be accounted for in accordance with GASBS 16
 - Cash payout or
 - If funds in account are used for healthcare benefits
 - **Unless** conversion is to hasten retirement and is offered for only a short period of time – GASB 47 termination benefit

Sick Leave Conversions

- Conversion of unused sick leave hours into specific levels of healthcare coverage is OPEB
 - For example, one month of coverage for every 8 hours of unused sick leave

Resources

- GASB Statements 27, 43, 45, 47 – Lucas Library
- Miller GAAP Guide – Lucas Library
- GASB Statement 43 and 45 Implementation Guide

GASB 47 Implementation

Measurement,
Accounting and
Reporting

Measurement of Termination Benefit

- Calculate using discounted present value
 - Relevant if multiple year payments
 - N/A or immaterial if single year payment
- If benefits offered do not specify when payment(s) will be made
 - No discounting necessary – use total future payments
- Measurement updated annually

Recognition of Termination Benefit

- **Voluntary termination – recognize expense/liability:**
 - When the offer is accepted by employee
 - If amounts can be estimated
- **Involuntary termination – recognize expense/liability:**
 - When plan has been approved by the governing body
 - The plan has been communicated to employees
 - If amounts can be estimated

Reporting Termination Benefits

- Government-wide financial statements
 - Full accrual
- Fund perspective financial statements
 - Government Funds
 - Interpretation 6
 - Proprietary Funds